

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Window Rock Unified School District No. 8

Year Ended June 30, 2005



Debra K. Davenport
Auditor General

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March 13, 2007

Governing Board
Window Rock Unified School District No. 8
P.O. Box 559
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Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2005, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Window Rock Unified School District No. 8 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$32.5 million it received in fiscal year 2005 to provide this education.

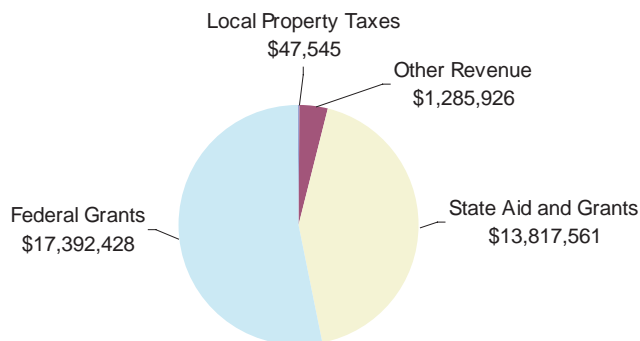
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2005, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2005

County: Apache
Number of Schools: 8

Number of Students: 2,789
Grade Levels: K-12



Source: Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2004-2005 and Window Rock Unified School District No. 8 Single Audit Reporting Package for the year ended June 30, 2005.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. For example, the District did not always issue invitations for bids or requests for proposals for purchases in excess of the competitive sealed bid threshold, or retain supporting documentation for having done so. In addition, the District did not always obtain oral and written price quotations for purchases requiring them. Also, the District did not analyze the known requirements for an item or collection of items that, in the aggregate, may require the District to follow competitive purchasing requirements. Further, the District did not perform and document due diligence for purchases made through a purchasing cooperative, and the District did not always prepare written documentation to support the Governing Board's determination of a vendor as sole source.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should:

- Determine whether to request oral or written price quotations, or issue invitations for bids or requests for proposals by analyzing the known requirements for an item or collection of items that, in the aggregate, may result in purchases above \$5,000.
- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services that exceed \$33,689 and retain all documents necessary to demonstrate compliance with the School District Procurement Rules.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000 and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Perform and document the due-diligence procedures performed for at least a sample of the purchasing cooperative's contracts that the District wishes to use to ensure that cooperative contracts were bid following the School District Procurement Rules.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source procurements and emergency and other exceptions.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

- Award a contract without competition only after the District's Governing Board determines in writing that there is only one vendor who supplies the items or services. Such written determination should be retained with other supporting documents for the purchase. Sole source procurement should be avoided, except when no reasonable alternative vendor exists.

The District should strengthen controls over student activities and auxiliary operations monies

The District holds student activities monies raised through students' efforts for safekeeping. Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. Specifically, the District did not prepare reports that reconciled sales to cash collected for student activities events and did not always deposit student activities and auxiliary operations cash receipts timely. Also, the District did not always obtain student approval for student activities disbursements prior to ordering goods or services. Finally, the District did not submit a report of student activities cash receipts, disbursements, transfers, and cash balances to the Governing Board monthly.

Poor cash controls left student and district monies susceptible to loss, theft, or misuse.

Recommendations

To strengthen cash controls over student activities and auxiliary operations monies, the District should:

- Prepare cash collection or activity reports to document and reconcile cash collections and tickets or items sold for student activities events. If it is not practical to sell tickets or count items before and after the sale, such as for bake sales, clubs should still prepare cash collection reports to document cash collected.
- Deposit student activities and auxiliary operations cash receipts intact daily, when significant, or at least weekly.
- Require that disbursements from the student activities bank account are approved by the student club before goods or services are ordered and retain documentation to support the approval.

The forms on USFR pages X-H-19 and 21 may be used to record daily cash collections and reconcile sales to cash collected.

- Prepare a report of student activities cash receipts, disbursements, transfers, and cash balances, and submit it to the Governing Board monthly.

The District should ensure its attendance and transportation reports are adequately supported

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its documentation supporting its student attendance and transportation reports is accurate. However, entry and withdrawal dates recorded in the District's computerized attendance system did not always agree to student entry

The District may not have received the appropriate amount of funding because the District did not report membership, absences, or eligible students transported correctly.

and withdrawal forms or teachers' attendance records. In addition, the District did not always correctly calculate partial-day absences for elementary and junior high students, and high school absences were not always reported in accordance with ADE's guidelines. Also, the District did not document the date

that student entries and withdrawals were entered into the computerized attendance system. Additionally, student counts reported on the District's budget work sheets did not agree to student counts reported to ADE. Further, the District did not retain documentation to support the amounts entered on its transportation route report and did not properly report the number of eligible students transported on its budget work sheets.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Accurately record entry and withdrawal dates in the District's computerized attendance system. A second employee should verify that entry and withdrawal dates recorded in the computerized attendance system agree to the applicable forms and teacher attendance records.
- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than 3/4 of the day. If instructional time for the year was 692 hours or more, record students attending less than half of the day as absent.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Record partial-day attendance for students enrolled in first through eighth grades if attendance is based on half days, as follows:
 - Attendance for at least 3/4 of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least 1/2, but less than 3/4, of the instructional time scheduled for the day should be counted as a half-day of attendance.
- Record and report high school absences in accordance with the chart in ADE's *Instructions for Required Reports*.
- Document the dates employees enter entries and withdrawals into the District's computerized attendance system. The information should be entered within 5 working days of the actual entry or withdrawal.
- Obtain student counts to be used in the expenditure budget from ADE's ADMS 46-1 Report for the prior year.
- Prepare and retain documentation to support the amounts reported on its Transportation Route Report and use that report to complete the District's expenditure budget.

The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to have accurate lists of these assets to ensure they are properly accounted for. Specifically, the District did not ensure its capital assets list included all required information, and some assets were unidentifiable based on the description recorded on the list. Additionally, assets selected from the stewardship list could not be located on the District's premises, and assets selected from the District's premises were not always included on the stewardship list. Also, the District did not always update the lists for acquisitions and disposals or reconcile its capital asset additions to capital expenditures.

The District did not maintain a complete and accurate record of its capital assets, and assets could not always be located on the District's premises.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital asset additions to capital expenditures.

Recommendations

The following procedures can help the District ensure that its assets are adequately controlled:

- Maintain a current and complete capital assets list that includes items costing \$5,000 or more with useful lives of 1 year or more. Include all required information for each item on the list.
- Maintain a current and complete stewardship list that includes items costing between \$1,000 and \$5,000.
- Ensure the capital assets and stewardship lists accurately reflect asset locations on the District's premises and are updated at least annually for items acquired, disposed of, or moved. Maintain documentation to support any changes, including properly approved disposal forms.
- Reconcile capital asset additions to capital expenditures and resolve any differences.

The District should strengthen controls over its expenditures and accounting records

It is essential that the District follows procedures designed to help ensure that its purchases are approved before committing district monies and that its expenditures and accounting records are properly supported. However, the District did not always follow such procedures. Specifically, the District had several funds with deficit cash

The District had deficit cash balances of over \$295,000 in four funds and overpaid employees by \$3,600.

balances, did not close inactive funds, and did not properly carry forward Classroom Site Funds' budget balances. Also, the District overpaid some employees, as personnel files did not include appropriate documentation to support pay rate changes, and the District did not always reimburse employees for mileage at the Arizona Department of Administration's (ADOA) approved rate. Further, the District did not always properly code revenues and expenditures, retain documentation to support expenditures, or ensure that expenditures recorded on its annual financial report (AFR) agreed with its accounting records.

In addition, the District did not file, or file in a timely manner, its proposed expenditure budget, affidavit of publication of the proposed expenditure budget, revised expenditure budget, and AFR with ADE and the County School Superintendent (CSS), as applicable. Finally, the District did not submit its audit reports in a timely manner.

Recommendations

The following policies and procedures can help the District report accurate information:

- Verify that sufficient cash or budget capacity exists in the applicable funds before authorizing purchases.
- Close all inactive accounts.
- Carry forward the unexpended budget balances in the Classroom Site Funds to the following year in accordance with Arizona Revised Statutes.
- Attempt to recover overpayments and review each employee's pay rate to ensure it agrees with the employee's contract or payroll authorization form.
- Ensure that employees are reimbursed for mileage at ADOA's established standard rate. Have a second employee verify that employees are reimbursed correctly.
- Classify transactions in accordance with the USFR Chart of Accounts to ensure revenues and expenditures are recorded in the appropriate fund and to the appropriate level of detail.
- Compare expenditure supporting documentation before making payments and retain the documentation, including original vendor invoices.
- Update accounting records for all expenditures before preparing the AFR and assign a second employee to review the AFR before submitting it to ADE.
- File expenditure budget and AFR information in a timely manner with ADE and the CSS, as applicable, and retain documentation to support that the information was submitted.
- Ensure that the District's audit reports are submitted within 9 months after fiscal year-end.

USFR pages VI-G-2 through 5 describe expenditure processing procedures.